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STATE FOR NEA/ARP
FOR COMMERCE ITA DAS HOLLY VINEYARD FROM THE AMBASSADOR

E.O. 12958: N/A
TAGS: BEXP ECON ETRD EAIR EIND PGOV PREL OTRA MU
SUBJECT: SCENESETTER: VISIT OF COMMERCE DAS HOLLY VINEYARD

REF: USDOC 04578

¶1. (U) Greetings and welcome to the Sultanate of Oman. My team and I look forward to your arrival on September 16 to promote the U.S.-Oman Free Trade Agreement. In addition to your attendance at a reception for labor and customs officials, we are seeking meetings with the Minister of Commerce and Industry, Executive President of the Omani Center for Investment Promotion and Export Development (OCIPED), Executive President of the Oman Chamber of Commerce and Industry (OCCI), the CEO of Oman Petrochemicals Industries Company (of which Dow Chemicals is a partner), and the Muscat American Business Council (MABC).

Economic Overview

¶2. (U) Oman's economy is based primarily on petroleum and natural gas, which are expected to account for 81% of the government's revenue in calendar year 2006. Oman's proven recoverable oil reserves are estimated at 4.8 billion barrels. The main producer of oil is the government majority-owned Petroleum Development Oman (PDO, in partnership with Royal Dutch Shell), which controls 90 percent of reserves and the lion's share of total production. U.S.-owned Occidental Petroleum is the second largest producer in Oman, and is making sizable investments at present in enhanced oil recovery efforts in mature fields.

¶3. (U) High oil prices in 2005 led to a record Omani budget surplus of $3.8 billion and a blistering GDP growth of 21.7 percent, despite the fact that oil production has been in steady decline since 2001. The 2006 budget, announced on January 1, projects significant government spending on industrial and tourism projects, though with the continuation of high oil prices, the government currently is running a six-month surplus of $3.2 billion. The Omani government also unveiled its seventh Five-Year Plan, to cover 2006-2010, which projects a hike in the average investment rate over that period to 24 percent of GDP. Thanks to windfall oil prices and strong tourism growth, Oman's economy is currently running at a brisk pace.

¶4. (U) Oman actively seeks private foreign investors, especially in the industrial, information technology, tourism, and higher education fields. The largest single industrial investment target is the port city of Sohar, near the UAE border. It has witnessed over $12 billion in government investment alone in the financing of several industrial projects, including a petrochemical plant (with Dow Chemical), a steel rolling mill, a fertilizer plant, and an aluminum smelter (being built by Bechtel). Investors transferring technology and providing employment and training for Omanis are particularly welcome. The permitted level of foreign ownership in privatization projects is 70 percent, with up to 100 percent in certain cases. The government has proceeded with several major privatization projects, including power generation projects in Salalah, Barka, Rusayl, and the Sharqiyah region.

Free Trade Agreement

¶5. (SBU) We currently await final Senate consideration of the U.S.-Oman Free Trade Agreement and a possible White House signing ceremony thereafter. Commerce and Industry Minister Maqbul bin Ali Sultan indicated that he would most likely attend, pending the Sultan's and Cabinet's concurrence. With approval of the Sultan and the Council of Ministers already in hand, there will not be an official signing ceremony in Oman. The Omanis will issue a Royal Decree once the President signs the bill into law.

¶6. (U) The Embassy and USTR are engaged with relevant Omani government agencies on ensuring that all pertinent regulations are FTA-compliant in order for the FTA to take effect on January 1, 2007. The government is finalizing updates to its investment and labor codes, and is partnering with the World Intellectual Property Organization (WIPO) to revise its intellectual property regulations, though USTR is concerned that the revisions may not be completed in time. We are also working with the Omani government on transparency regulations and a technical assistance program for customs administration.

¶7. (SBU) The Embassy is further collaborating with the government on FTA promotional activities. Minister Maqbul has indicated that he will attend the Middle East Free Trade Agreement Investment Conference, scheduled for November 2-3 in London. Both Minister Maqbul and National Economy Minister Ahmed bin Abdul Nabi Macki have also been very receptive to participating in a multi-state promotional tour of the United States in either the spring or autumn of 2007, with stops in New York, Chicago, Houston, and points to be determined on the West Coast. In planning such a tour, we have stressed the importance of the delegation bringing a clearly defined message for the American business community. To this end, we are in contact with the Business Council for International Understanding (BCIU) and the National U.S.-Arab Chamber of Commerce (NUACC) to assist Oman in developing a framework for the tour, as well as a public relations strategy. Furthermore, we are working with the Omani government on the logistics of a one-day FTA promotional outreach event in mid-November, with the possibility of conducting an FTA promotional roadshow within Oman.

Tourism Development

¶8. (U) With Oman aggressively marketing itself as an upscale, environmentally conscious tourist destination, international investors are taking advantage of significant improvements in local infrastructure to develop ambitious new tourist projects. U.S. construction and financial firms are joining a slew of regional and international consortiums that seek to capitalize on the region's annual 6.5 percent growth as a tourist destination. Investors hope to lure 3 million visitors annually with resorts like the $800 million Wave, the $160 million Bar al-Jissah Resort and Spa, and the massive $15 billion Blue City development just north of Muscat.

¶9. (U) In 2004, Oman welcomed 1.5 million tourists, generating revenues of $284 million. Through aggressive marketing campaigns and improved infrastructure, Oman hopes to increase the industry's meager 1 percent contribution to GDP to 3 percent. The Omani government estimates that the tourism sector could eventually create over 114,000 jobs. To achieve these ambitious figures, the Ministry of Tourism has spent $30 million through 2005 to market the country internationally.

¶10. (SBU) Complementing Oman's development as a tourist destination is Gulf Air's recent decision to consolidate its hubs at Muscat and Manama after the withdrawal of the Abu Dhabi emirate from the consortium. As a result, Gulf Air is rolling out new service to Paris, London-Heathrow, Bangkok, Jakarta, Katmandu, Karachi, Mumbai and Kuala Lumpur. Gulf Air continues to mull over proposals from Boeing and Airbus to renew its fleet with up to 47 medium and long-range aircraft. Questions about the future direction of Gulf Air linger, which has resulted in delayed decisions. National carrier Oman Air waits in the wings with its own expansion plans.

¶11. (SBU) Gulf Air's unexpected relocation has exposed deficiencies in Oman's tourism infrastructure, such as an outdated international airport and limited hotel room inventory. Correcting these deficiencies will be slow-going, as the government continues to evaluate plans to build a new airport terminal complex. The recent opening of the Shangri-La resort complex has temporarily relieved hotel room shortages; however, two major Muscat hotels will close down in 2007 for renovations.

Port Expansion

¶12. (U) Two of Oman's principal ports, Sohar and Salalah, are aggressively moving forward on expansion of their respective operations. The Port of Sohar, a 50-50 joint venture between the Sultanate and the Ports of Rotterdam, will anchor the $12 billion industrial development planned for the region. Oman is confident that the port's advantageous location outside the Strait of Hormuz and within 300km of three large gas reserves will lend to its success. In addition to its berths for industrial liquids, Sohar is positioning itself as Oman's largest container port with over 7 square kilometers of land

and a projected 10 dedicated shipping berths.

¶13. (U) The Port of Salalah has risen quickly to become a key transshipment hub for Maersk and its parent company A.P. Moller (APM). Operated by Salalah Port Services (SPS), which is 30% owned by APM Terminals and 20% owned by the Omani government (with the remaining 50% owned by pension funds, Omani corporations, and private investors), the port handled 2.23 million 20-foot equivalent units (TEUs) in 2004, ranking it as the world's 31st busiest port. Plans are ahead of schedule to expand the capacity of the port by adding two berths to the existing four already in operation. Once completed, the $234 million expansion, shared roughly evenly between SPS and the Omani government, will increase capacity by 1.8 million TEUs, bringing total capacity to 4.38 million TEUs. The government, which is considering a package of incentives to promote a proposed free zone adjacent to the port, recently oversaw the signing of a memorandum of understanding between the Salalah Free Zone Corporation and the Jebel Ali Free Zone Authority in Dubai.

¶14. (U) The government is also finalizing plans to develop a port at Duqm, a lightly populated area along the Arabian Sea. Master plans call for the construction of a dry-dock facility, oil refinery, and fish processing center to compete with Dubai's Jebel Ali port complex. The Duqm development plan also calls for the construction of an airport to facilitate passenger movements and cargo shipments.

Current U.S. Business Activity

¶15. (SBU) Arlington-based AES is currently competing for the construction of a power and water desalination plant in Barka and the acquisition of a government-owned power plant in Rusail. AES currently operates a natural gas-fired plant in Oman, which produces 427 MW of power and 20 million gallons (MIGD) of desalinated water per day. A decision on the tender most likely will be announced by the government by October, with a short list announced on September 4. AES is concerned that while it can offer attractive terms and a solid privatization plan for the Rusail plant, its bid price may be significantly higher than its two other competitors as a result of cost increases from its proposed turnkey contractor.

¶16. (U) GE is participating in a consortium headed by Kuwaiti-based UDCH on a bid for the construction of a $205 million, 18 MIGD water desalination plant in Sur, approximately 120 km southeast of Muscat. The consortium's only competitor is French-based Veoila after others, such as AES, declined to submit a bid.

¶17. (SBU) New Jersey-based PSEG is divesting itself from Salalah Port Holdings, the holding company for Dhofar Power Company. PSEG led a consortium in March 2001 in creating Dhofar Power, which began producing power through its 240 megawatt generation facility in May 2003. Under a 20-year contract with the government, Dhofar Power manages and operates the entire Salalah power grid, generating and distributing electricity to approximately 40,000 customers. The decision is part of PSEG's broader campaign to divestitself from its international operations as a resut of merger talks with Chicago-based Exelon. PSE has received a competitive offer for its 46% stke in the company from the "Oman Technical Partnrs Consortium," led by the al-Maashani family's uscat Overseas Group. The consortium includes Mlaysian independent power producer Malakoff and Finnish firm Fortum.
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